

Louisiana Public Service Commission

Certificate of Authority to Operate

Certificate Number TSP00040

A Certificate of Authority to Operate is hereby granted to

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

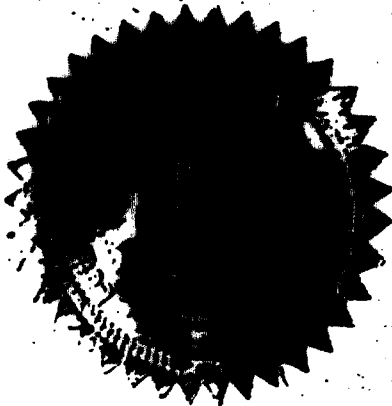
A telecommunication service provider under the laws of Louisiana, whose principle office location or place of business is 295 North Maple Avenue, Basking Ridge, New Jersey 07920.

AT&T shall operate in full accordance with the rules and regulations of the Louisiana Public Service Commission relevant to the provision of telecommunication services. The application as originally filed provides for Competitive Local Exchange Carrier services within the State of Louisiana.

Witness the signature and seal of the Commission at Baton Rouge, Louisiana this 1st day of November, 1996.

Louisiana Public Service Commission

Attest:



Lawrence E. St. Blanc

Secretary

ATTACHMENT 5



William J. (Jim) Carroll
Vice President

Room 4170
1200 Peachtree St., NE
Atlanta, GA 30309
404 810-7262

April 15, 1996

Via Hand Delivery

F. Duane Ackermann
Vice-Chairman and Chief Operating Officer
BellSouth Communications, Inc.
Atlanta, Georgia

Dear Mr. Ackerman:

Pursuant to Section 252 of the Telecommunications Act of 1996, AT&T Corp. ("AT&T") requests the commencement of negotiations for interconnection to enable AT&T to provide competing telecommunications services, including local service, in the State of Louisiana. This request includes all interconnection issues identified in Sections 251 and 252 of the Act, including the prices and terms for interexchange access, the resale of services, and the network elements used for the origination and completion of local exchange and interexchange services traffic.

Interconnection negotiations commenced on March 4, 1996 in the States of Florida, Georgia, North Carolina, and Tennessee. During the initial negotiating meeting held between AT&T and BellSouth on March 11, 1996, our companies agreed that it is appropriate to negotiate the majority of issues on a regional basis and only separately negotiate those issues that vary on a state by state basis. Therefore, it is AT&T's view that the negotiations for the State of Louisiana will become a part of the regional negotiations, recognizing that the official commencement date for the Louisiana negotiations for purposes of Section 252 (b) (1) of the Act is April 15, 1996.

While negotiations are progressing, there are a significant number of issues to resolve. I look forward to a timely resolution.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Jim", written over the typed name.

William J. Carroll

CC: J. Drummond
C. Coe
L. Cecil
R. Shurter

001274

ATTACHMENT 6

Memorandum to File

Re: June 20, 1996. AT&T and BellSouth Executive Interconnection Negotiations Meeting

Attendees: AT&T: W. J. Carroll, Vice President-LSO Southern Region
 R. Crafton, Manager-Southern Region
 D. M. Eppsteiner, Senior Attorney-L&GA
 N. Brown, District Manager (First part only)
 M. Guedel, Manager (First part only)

 BellSouth W. S. Schaefer, Vice President-Marketing Interconnection
 Services
 S. Laven, Lead Negotiator
 M. J. Peed, General Attorney
 J. Anderson, Cost Analyst (First part only)
 J. Hendrix, Pricing Analyst (First part only)

Place: BellSouth Offices, 675 West Peachtree St., Atlanta, Georgia

This memorandum summarizes the June 20, 1996, meeting between the Executive Teams of BellSouth and AT&T. A copy of the Agenda is attached as Attachment 1.

Jim Carroll opened the meeting by stating that his thought for the first two hours of the meeting was to discuss each company's view of various economic definitions that were being used. He stated that it was not his intent to solve any issues in the cost area, but to gain insight into each company's view.

Scott Schaefer stated that even in BellSouth, different people used different definitions for Long Run Incremental Cost ("LRIC") and Total Service Long Run Incremental Cost ("TSLRIC"). He said he wanted to make sure we were not arguing over something that could be resolved definitionally. He then introduced Jerry Hendrix as BellSouth's Pricing Analyst and Jim Anderson as BellSouth's Cost Analyst.

Mr. Anderson then distributed a one-page document (Attachment 2) of economic definitions accepted by BellSouth. Mr. Anderson explained BellSouth's view of LRIC. He stated that for BellSouth, the LRIC is the price floor for any service offered. Under this definition, he explained, there were no fixed costs. LRIC is forward looking.

Mr. Guedel then asked how BellSouth defined fixed costs. Mr. Anderson stated that BellSouth considered a fixed cost to be a one-time cost that was sunk when spent, as compared to a capital cost which, once spent, developed additional cost streams. Mr. Guedel asked if switches were included in BellSouth's definition of LRIC. Mr. Anderson

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Mr. Crafton then suggested a review of the high points on the matrix (Attachment 3). In the unbundled loop need, AT&T was awaiting a response to the options in its proposal. Ms. Lavett noted that BellSouth had responded to these at the working level. Ms. Lavett, referring to the matrix, stated that options a (provide AT&T with copper facilities) and b (integrated VRT configuration, provide a TR303 interface) are available but that c (allow AT&T to purchase entire DLC system) and d (convert integrated systems to non-integrated) were not. Ms. Lavett stated that BellSouth believed that options a and b met AT&T needs for market entry.

The discussion next considered the Network Interface Device need. Mr. Crafton stated AT&T would agree to ground the loop when a service call was made. Mr. Schaefer noted that BellSouth's position has not changed. Mr. Carroll noted that Option b (AT&T ground loop and certifying it as such on BellSouth certification program) was the correct solution. Mr. Schaefer disagreed.

The discussion next turned to Dedicated Transport. Mr. Crafton asked if BellSouth had any additional thoughts on its position. Ms. Lavett noted that AT&T could purchase transport but BellSouth disagreed with AT&T on the port.

The parties moved to discussion of the five-year reservation on rights of way. Mr. Schaefer explained BellSouth's position was based on its reading of Section 224 of the Telecommunications Act. Mr. Crafton asked if AT&T would have access to all records on a current basis. BellSouth said the records would be available. Mr. Carroll noted that AT&T agreed about the records access, but not on the five-year reservation.

Mr. Carroll then asked Mr. Schaefer about BellSouth's position on AIN. Mr. Carroll noted that at the previous meeting Mr. Schaefer had agreed to revisit the issue of whether Phase III AIN was required by the Act. Mr. Crafton noted that AT&T was seeking unmediated access. Mr. Schaefer said the parties disagreed on what was required by the Act.

Mr. Crafton said that for loop distribution, AT&T did not need this fully unbundled until 1997, although AT&T's position is that loop distribution unbundling is technically feasible. Ms. Lavett stated that BellSouth's position had not changed, that it was not committed to move forward on this, and it does not think it is technically feasible. Mr. Carroll noted that AT&T wanted BellSouth to consider a process to move forward with this. Mr. Schaefer stated BellSouth is working the issue but that there was no target date. Ms. Lavett noted that BellSouth would be hearing from vendors in six weeks. AT&T asked for an update at that time.

Mr. Crafton next provided the Unbundled Network Function Combinations chart (Attachment 4.) He wanted the parties to focus on what elements and combinations were most important to AT&T. Of the twelve combinations, AT&T needed the to ability to order eight by November, 1996. Four combinations could be provided later. Following discussion about the document, Ms. Lavett noted that combination 1 looked like resale

and BellSouth did not agree that AT&T should have the ability to recombine elements to replicate resale.

Mr. Carroll said that other than the area where we agree to disagree, he wanted to focus on the service dates across the various combinations and dates where the combinations were doable from an operation and ordering perspective. Mr. Carroll asked if the parties could focus on delivery dates in areas where the parties agree. Ms. Lavett said they could. Mr. Carroll noted that in his view, combinations 1, 3, 5 and 8 were agreeable now, subject to resolution of certain issues. Mr. Schaefer stated Option 1 could be available if operator services/directory assistance was branded BellSouth; Option 3 and 8 are available except where IDLC equipment deployed and combination 5 was available.

The meeting then concluded.

ATTACHMENT 7

Received 5/20/96 VIA MAIL

May 16, 1996

RECEIVED
VIA FAX

William J. Carroll
Room 4170
1200 Peachtree Street, N.E.
Atlanta, Georgia 30309

Dear Jim:

The purpose of this letter is to respond to your three letters to Duane Ackerman, of May 6, 1996 and your letter of May 7, 1996 addressed to me.

May 6, 1996 letters to Duane Ackerman regarding Alabama and Kentucky—BellSouth is pleased that AT&T has elected to begin interconnection, unbundling and resale negotiations for the states of Alabama and Kentucky. BellSouth will now consider these states as a part of the ongoing negotiations between our two companies and will recognize May 6, 1996 as the official date for both states. If this is not the case, please let me know.

Secondly, BellSouth suggests that the two companies go ahead and include the rest of the BellSouth states in the negotiations. If this proposal is acceptable to you, BellSouth will consider the official commencement date for negotiations to be the date of your written acceptance of this proposal.

May 6, 1996 letter to Duane Ackerman regarding operational interfaces and May 7, 1996 to me regarding same—BellSouth maintains that the PC to PC fax interface initially proposed meets the letter and spirit of the Telecommunications Act of 1996 as to interface requirements between the incumbent local exchange carrier and other local exchange carriers. Further, the fax interface is immediately available thus facilitating AT&T's immediate entry into the local exchange reseller market.

Nonetheless, BellSouth has been willing to go further than the requirements of the law through its consideration and offer to provide an electronic interface system for service order transfer and confirmation. It is our expectation that representatives from BellSouth and AT&T will soon be able to agree on the specific requirements for this system.

In addition to the above-mentioned EDI development, BellSouth has continued to explore options for addressing AT&T requests and has taken the following steps:

- (1) BellSouth has developed an initial view of pre-ordering electronic interfaces including electronic access to: RSAG - End office (CLLI) NPA-NXX information, PSIMS - Feature and function availability, ATLAS - Telephone number assignment, DSAP - Due date scheduling.
- (2) BellSouth has developed an initial view of the work necessary to complete service orders to AT&T via an EDI interface.
- (3) BellSouth will consider authorizing the design phase to begin on both the abovementioned items pending acceptance by AT&T of the terms outlined in the following paragraphs.

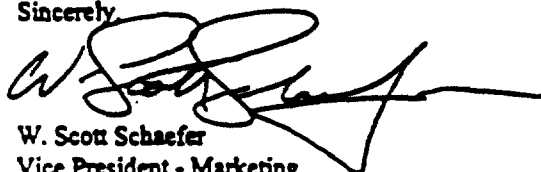
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BellSouth has two mechanisms for recovering the costs of this additional and discretionary work. The costs of the development of the systems can be netted against the discount offered to resellers for the purchase of BellSouth's retail telecommunications services or the cost can be recovered through non-recurring charges.

At present, AT&T is the only reseller to request that the interface between BellSouth and itself be through electronic systems. Further, in your May 1, 1996 letter, you specifically rejected BellSouth's proposal to net the costs of the development of electronic interface from the discount offered to resellers by BellSouth. BellSouth was surprised by AT&T's reaction to the "netting" concept due to earlier informal indications from AT&T that this method would be worthy of serious consideration and because this approach would spread the costs across resellers utilizing the BellSouth network. As discussed in our meeting of May 14, BellSouth is requesting AT&T put forth a proposal for BellSouth's recovery of these costs that would be acceptable to both parties.

I look forward to our regularly scheduled meetings regarding the negotiations.

Sincerely,



W. Scott Schaefer
Vice President - Marketing
InterConnection Services

001823

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Second Application by BellSouth)
Corporation, BellSouth Telecommunications,)
Inc., and BellSouth Long Distance, Inc., for)
Provision of In-Region, InterLATA Services)
in Louisiana)

CC Docket No. 98-121

AFFIDAVIT

OF

WILLIAM J. BAUMOL

ON BEHALF OF

AT&T CORP.

AT&T EXHIBIT B

Filed August 4, 1998

FCC DOCKET CC NO. 97-231
AFFIDAVIT OF WILLIAM J. BAUMOL

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of

Application by BellSouth Corporation,)	
BellSouth Telecommunications, Inc.)	
and BellSouth Long Distance, Inc.)	
For Authorization Under Section 271)	CC Docket No. 97-231
Of the Communications Act to Provide)	
In-Region, InterLATA Service)	
In the State of Louisiana)	

AFFIDAVIT OF
WILLIAM J. BAUMOL
ON BEHALF OF
AT&T CORP.

1. My name is William J. Baumol. I am Director of the C.V. Starr Center for Applied Economics at New York University, and Professor of Economics Emeritus at Princeton University. I have published more than 500 articles in professional economic journals and am the author or coauthor of more than two dozen books, including Toward Competition in Local Telephony (1994), Entrepreneurship, Management, and the Structure of Payoffs (1993), Economics: Principles and Policy (5th ed. 1991), Contestable Markets and the Theory of Industry Structure (rev. ed. 1988), The Theory of Environmental Policy (2d ed. 1988), and Superfairness (1986). I am past president of four professional organizations, including the American Economic Association, and have been elected to the National Academy

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of Sciences. A fuller statement of my background and qualifications is appended to this affidavit.

2. I submit this affidavit to discuss the application of BellSouth to provide in-region, interLATA services in Louisiana. In principle, I am a strong supporter of elimination of impediments to entry of any enterprise into any market. For this reason, BellSouth's application would seem to deserve careful consideration.

3. The central purpose of this testimony is to offer such an examination by discussing appropriate and inappropriate means for the encouragement of further competition in interexchange telecommunications, and the pertinence of these considerations to the terms of the Telecommunications Act of 1996 that restricts the arenas of activity of BellSouth and other Bell Operating Companies ("BOCs").

I. INTRODUCTION

A. THE BASIC ISSUE

4. BellSouth has applied to the Commission for permission to provide interexchange service under Section 271 of the Telecommunications Act. BellSouth, along with the other BOCs, as the monopoly providers of local exchange service throughout most of the country, have previously been foreclosed from providing most interexchange service by the terms of the Modification of Final Judgment ("MFJ") under which the BOCs were divested from AT&T. BellSouth now contends that permission for it to embark on interexchange

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service will enhance the competitiveness of all of telecommunications and will serve to weaken the market power that it claims is now exercised by the three largest long distance carriers.

5. In enacting the Telecommunications Act of 1996, Congress stated that its purpose was "to promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies." To achieve these clearly laudable goals, the Act uses a two-pronged approach. First, the Act has a number of provisions designed to stimulate the birth and growth of competition in local exchange markets. Second, the Act provides that after several criteria related to the competitiveness of local exchange markets have been met, the BOCs may enter interexchange markets.

6. One of these criteria is that such entry "is consistent with the public interest" As the many economists who have submitted statements on behalf of BellSouth have acknowledged, the public interest requires the Commission to determine whether granting BellSouth's application will enhance or harm competition. This issue, in turn, requires the Commission to examine whether local exchange markets in Louisiana are sufficiently competitive to act as an effective constraint on anticompetitive conduct that would be possible if the restrictions originally imposed under the MFJ were removed.

7. BellSouth has filed in support of its position the submissions of several economists of undoubted ability and integrity. Nevertheless, it seems clear that even a brief but careful review of the pertinent facts will convince dispassionate observers that the

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permission BellSouth seeks is entirely premature. If the Telecommunications Act works as designed, there should come a time when the public interest will make BellSouth's entry into interexchange service appropriate. There is even reason to hope that the time for this will not be long in coming. However, it is also possible that there may be a very considerable delay before BellSouth can safely be permitted full-scale entry into interexchange service. The point is that currently in Louisiana, competition for the delivery of telecommunications service to households and smaller business firms as well as to many other subscribers, that is, local exchange service, has experienced only the first stirrings of competition. The record before the Commission makes it safe to say that BellSouth serves over 99 percent of the total access lines in BellSouth's Louisiana service territory. In such circumstances, one can hardly treat as a serious assertion the claim that the local exchange has now become sufficiently competitive so that the concerns about anticompetitive conduct (concerns underlying the original imposition of the MFJ restrictions) have evaporated.

8. I do not differ an iota from any of my colleagues who have prepared testimony on behalf of BellSouth in this matter on the desirability of increased competition in any part of telecommunications activity, both in the local arena and in interexchange service. Any new firm that does not possess any bottleneck facilities essential for the activities of the other firms in the interexchange arena may well serve the public interest if it enters interexchange service provision and is successful in this venture. As I will show here, however, entry into interexchange service by a firm that does possess a critical bottleneck,

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while it will undoubtedly offer the appearance of enhancing competition in that segment of communications, may well actually handicap it severely and can conceivably even cripple it.

B. LOCAL BOTTLENECKS AS A THREAT TO INTEREXCHANGE COMPETITION

9. The problem at issue here arises whenever a proprietor of a bottleneck facility that is an essential input into a final product enters into competition for supply of the final product itself. In the present circumstances, the final product is interexchange telecommunications, and the bottleneck input is, of course, access to local exchange facilities. Any interexchange carrier must purchase access from the local exchange carrier in order to sell its services to subscribers and other users. However, if the local exchange carrier enters into competition in the provision of final product, interexchange service, then it, too, must use access to local exchange facilities in order to supply its services to consumers.

10. The price and other terms on which the BOC supplies access to itself and to the other carriers can, obviously, have a profound effect on competition. For example, if bottleneck services were supplied to competitors at a price substantially lower than the owner of the bottleneck implicitly charges itself (as occurred in some arenas such as railroading, where such prices were imposed by traditional regulatory practice) then the owner of the bottleneck clearly would be placed at a marked competitive disadvantage relative to its rivals who purchase the same bottleneck services. In contrast, where the owner of the bottleneck is

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unconstrained in the pricing of its bottleneck services, there is the marked danger that it will sell them to its rivals on considerably less advantageous terms than it does to itself. If this occurs, obviously the entry of the bottleneck owner into the competitive final product market, rather than enhancing competition, can handicap it seriously and even destroy it. This is one of the key reasons that the MFJ broke up the Bell System and insisted that the bottleneck facilities go to firms entirely separated from the (then prospectively, now actually) competitive interexchange market.

11. Not only is there the very real peril that a BOC freed to enter the interexchange market will sell access service at prices to competitors higher than those it implicitly charges itself; there is also a heightened danger that access for some services will be priced (as a result of cost misallocations between competitive and noncompetitive services) so as to yield a substantial monopoly profit to the LEC, both on the access it provides to interexchange carriers, and on the access service it uses for itself. It can even use such monopoly profits to provide cross subsidies to some of its other products if that should offer a strategic advantage to the BOC.

12. This is not just a conventional problem of cross subsidies, whose significance and character is widely recognized. Rather, the problem stems from the fact that when a BOC supplies toll service, as it now does in intraLATA areas, it is, in effect, forced to acquire access just as any other toll service supplier must do. However, this means that the

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BOC, unlike the interexchange carrier, must purchase access from itself. That, in turn, entails two problems from the point of view of protection of the public interest.

13. First, while the toll service competitor of the BOC pays a directly observable price for the access -- a price whose magnitude is visible to all -- in contrast, the price that the BOC implicitly charges itself for access can be calculated only indirectly, on the basis of very sophisticated concepts, if it is to be calculated correctly. The Telecommunications Act requirement that the BOC impute to itself the same cost of access as it charges to its interexchange competitors, while eliminating one very obvious form of discrimination, does not remedy the underlying problem. The point is that the transfer price recorded on the affiliated enterprises' books -- whether it is equal to or different from the access charge imposed on interexchange competitors -- is irrelevant because the transfer of money from one pocket of the overall business to the other pocket is irrelevant. The relevant price, of course, is composed of the incremental cost of access plus the imputed profits, neither of which can be obtained directly from the corporation's books.

14. This difficulty must be faced up to, for failure to do so means that the BOC may be supplying access to itself at a price considerably lower or considerably higher than that at which it supplies access to the interexchange carriers. With access so important a component of the cost of supplying toll, it is clear that if either an IXC or the BOC ends up paying a materially higher price for access than the other does, it will be placed under a severe handicap in competition for toll business. In terms of the overused cliché, the playing field

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will be tilted severely, and the public welfare will be damaged because the traffic will not necessarily go to the firm that can supply it most cheaply and efficiently, but rather to the firm that can get away with the lower access price. (As described in Section III.A. below, this technique is often referred to as a "vertical price squeeze.")

15. That gives rise to the second of the problems that were just referred to. Clearly, with pricing of access in the hands of the BOC it is hardly to be expected that it will be the IXCs who receive the lower toll price. The danger is that with the price of access of the BOC to itself not easily observable, it will not resist the clear temptation to tilt the toll playing field in its own favor, thereby undermining competition (and not just particular competitors) in the arena. So long as effective competition in the local loop remains a distant promise, so that -- as is the case today -- the IXCs have no place else to turn for the essential access services, the problem will not vanish of its own accord, any more than it could have been expected to do when the MFJ was first formulated, and when the BOCs were divorced from AT&T to avoid just this sort of threat to competitiveness.

C. BUT WHERE IS THE MONOPOLY POWER REALLY LOCATED?

16. The notion apparently entertained by BellSouth that such danger to competition of discriminatory provision of the bottleneck services merits little discussion is mind boggling enough. However, BellSouth goes one step further and takes a position that strains credence even more. It argues that not only is the local exchange an arena open to

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competition today, but that, in fact, it is the interexchange market that is really uncompetitive. In effect, this would seem to imply that it is the interexchange carriers who are in a position to exploit the BOCs rather than the reverse. BellSouth goes to great lengths to argue both -- the openness of the local exchange to competition and the lack of competition in interexchange service. But when these two propositions are placed side by side their absurdity must be manifest to the most casual observer.

17. Of course, no one can pretend that interexchange competition encompasses anywhere near as many rivals as the market for soy beans. Interexchange service is supplied by four large carriers, by over a half dozen others who provide service that is virtually national, and by hundreds of smaller carriers. It is substantially constrained, though not perfectly, in its pricing and other respects by the extreme ease of entry into reselling. It is true that in their base prices the major suppliers tend to stay abreast of one another. Surely, effective competition offers them no other option. And one need only turn on one's television set on any evening to watch MCI make unkind remarks about AT&T or to see the favor returned. Moreover, this extremely rivalrous advertising is focussed on prices and discounts, with each firm, and Sprint as well, energetically striving to attract household subscribers. In dealing with business firms, rivalry is undoubtedly even more severe, with carriers vying to offer attractive special contracts to prospective customers.

18. In contrast, has anyone ever seen a television advertisement of two rivals in combat for household users of the local loop? To what competitor can any of us turn if we

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are unhappy with the monopoly service supplied by our friendly BOC? It is true that BOCs do now face some competition for some of the traffic of business firms and government agencies. However, the notion that the local loop's state of competitiveness can even be compared remotely with that in interexchange services is so absurd on its face, that mere recapitulation of the argument should suffice to dispose of it. Reality stood on its head in this case, fortunately, all too easy to recognize.

D. THE BOTTOM LINE

19. The inescapable conclusion from all this is that BellSouth's petition is at best highly premature. It is difficult to deny that enhanced competition in any telecommunications arena, or in any other economic area for that matter, will benefit consumers. This is true of the interexchange arena and even considerably more so in local services. While entry usually makes an economic sector more competitive, there are notable exceptions. The entry into a market by the monopolistic proprietor of an input indispensable to all suppliers in that market, rather than enhancing competition, can serve to undermine it. The introduction of a wolf into a chicken coop can hardly be counted on to increase the population of the coop.

20. The pretense that effective competition will come to the local arena does not make it so. There can be little doubt that the services of the local exchange continue to be supplied on what are essentially monopoly terms to the vast preponderance of users of

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telecommunications services. Some day, perhaps even soon, under the Telecommunications Act of 1996 and subsequent FCC orders, that monopoly may come to an end. Until it does, there is no more reason to eliminate the structural separation between interexchange markets and clearly non-competitive local exchange markets than there was a decade ago. The issue is no more complex than that.

II. ON THE STATE OF COMPETITION IN THE LOCAL EXCHANGE

A. THE LIMITS OF COMPETITION TODAY

21. BellSouth's own filing makes clear that only a very small degree of competition has made its appearance in the provision of local services in Louisiana. What is now nascent competition may well develop into effective access competition. Nevertheless, it cannot be maintained with any degree of plausibility that this state of affairs has already been achieved, and that competition has deprived BellSouth of the power to exploit its bottleneck facilities to the disadvantage of prospective rivals in the interLATA market. Moreover, BellSouth's filing does not even suggest a standard that could be used to determine whether competition in the local service arena has grown sufficiently powerful to eliminate the legitimate concerns raised by BellSouth's entry into interLATA markets.

22. The basic difficulty, of course, is that successful operation in the interLATA arena requires the firm supplying those services to reach the individual telecommunications customers, and that, with some very limited exceptions, this still can be

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done only through use of facilities provided exclusively by BellSouth. Whatever the competition that is available today, it serves almost entirely to protect some of the pertinent and legitimate interests of large business customers and large business users. It does virtually nothing to offer similar protection to smaller business and household users whose interests should be a prime concern of regulation. And failure to offer competitive protection to smaller business and household users of local telecommunications services also leaves vulnerable the large business customers, many of whose messages ultimately have smaller businesses or households as their target.

23. Similar observations apply to access. If and when the access services can be supplied by a number of rival carriers, each in a position to offer such services to any interexchange carrier in whatever quantity and quality the latter desires, and to offer the services in competition with BellSouth, then BellSouth will clearly have been deprived of its bottleneck and there will be no legitimate reason to prevent its entry into the provision of interLATA services. However, it is obvious that such a state of affairs is still far from reality.

24. It is yet possible, despite protestation to the contrary by some witnesses for BellSouth, that many of the still-noncompetitive services will prove to be natural monopolies so that substantial competition in their supply will never materialize. Moreover, potential competition, the instrument of contestability of a market, is likely to be impeded in such an arena by the need for any entrant to incur substantial sunk investments before it can hope to compete effectively, the continued dependence of entrants on BellSouth for the use of